

Message Text

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DEPARTMENT PASS TO SECRETARIES BUTZ AND SIMON

WHITE HOUSE FOR SEIDMAN

LONDON PASS ASSISTANT SECRETARY HARTMAN

E.O. 11652: N/A

TAGS: ETRD, EAGR, EEC

SUBJECT: CHEESE AND COUNTERVAILING DUTIES

REF: A) EC BRUSSELS 1922

B) EC BRUSSELS 1863

1. COMMISSION DIRECTOR GENERAL WELLENSTEIN CALLED ME MARCH 6 ABOUT THE CHEESE PROBLEM. HE SAID THE COMMISSION IS CONCERNED ABOUT RECENT DEVELOPMENTS IN WASHINGTON. HE SAID THAT HAD SOAMES BEEN IN TOWN, SOAMES WOULD HAVE ASKED TO SEE ME. I REPLIED THAT SOAMES HAD MENTIONED THE ISSUE TO ME YESTERDAY (REFTEL A).

2. WELLENSTEIN SAID THAT THE COUNTERVAILING DUTY QUESTION IS NO LONGER TECHNICAL BUT POLITICAL. HE RECALLED THE HISTORY. AS A RESULT OF SECRETARY KISSINGER'S CONVERSATION WITH ORTOLI AND SOAMES ON JULY 4, THE COMMISSION HAD TAKEN A MAJOR POLITICAL RISK IN SUSPENDING SUBSIDIES ON DAIRY EXPORTS TO THE UNITED STATES IN THE HOPE OF GETTING QUICK ACTION ON THE TRADE BILL WHICH WOULD GIVE THE PRESIDENT SOME FLEXIBILITY IN APPLYING THE LIMITED OFFICIAL USE

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COUNTERVAILING DUTY LAW. AS THE CONGRESSIONAL CONSIDERATION

DRAGGED ON UNTIL THE END OF THE YEAR, THERE WAS INCREASING PRESSURE ON THE EC TO RESTORE ASSISTANCE TO CHEESE EXPORTS TO THE US. THE COMMISSION RESISTED THIS PRESSURE AND IN FACT TOOK ACTION IN COOPERATION WITH US TO STOP SUBSIDIZED TRANSSHIPMENTS THROUGH CANADA. SOAMES PERSONALLY PLAYED A MAJOR ROLE IN THE MANAGEMENT OF THIS ISSUE FOLLOWING SECRETARY KISSINGER'S REQUEST FOR HELP FROM THE COMMUNITY.

3. AFTER PASSAGE OF THE TRADE LEGISLATION, THE COMMISSION HELD TECHNICAL AND POLICY CONSULTATIONS WITH US PRIOR TO PUTTING INTO EFFECT A NEW RESTITUTION PROGRAM. THE NEW SYSTEM CAME INTO EFFECT ON FEBRUARY 6 WITH A SIGNIFICANTLY LOWER RATE OF SUBSIDY THAN HAD EXISTED PRIOR TO JANUARY 1974. AT THAT TIME, THE EC STRESSED TO THE USG THAT THOUGH IT COULD NOT FORMALLY NEGOTIATE ITS LEVELS OF EXPORT RESTITUTION, IT WAS WILLING TO TAKE ACCOUNT OF US REACTIONS IN APPLYING CORRECTIVE ACTIONS WHEREVER THESE SUBSIDIES WERE CAUSING DIFFICULTIES FOR US DAIRY PRODUCERS. IN ORDER TO BE ABLE TO ACT PROMPTLY TO CORRECT PROBLEMS, IT HAD ELIMINATED PREFIXATION OF EXPORT RESTITUTIONS.

4. NOW, ACCORDING TO WELLENSTEIN, THE COMMUNITY UNDERSTANDS THAT SERIOUS CONSIDERATION IS BEING GIVEN IN WASHINGTON TO THE IMPOSITION OF COUNTERVAILING DUTIES, WITHOUT TESTING THE NEW REDUCED SUBSIDIES AND THE CONSULTATIVE MECHANISM WHICH THE COMMUNITY HAS PROPOSED. WELLENSTEIN ADDED THAT THE COMMISSION IS WILLING TO SEND A DELEGATION TO WASHINGTON TO EXPLAIN THE COMMUNITY'S NEW SYSTEM AND HOW IT IS INTENDED TO WORK IN ORDER TO AVOID CAUSING DISRUPTION IN THE US CHEESE MARKET.

5. WELLENSTEIN SAID THAT IN VIEW OF THE MAJOR POLITICAL EFFORT MADE BY THE COMMISSIONERS AND THE MEMBER STATES, THEY WOULD CONSIDER THE IMPOSITION OF COUNTERVAILING DUTIES TO BE A MAJOR POLITICAL ISSUE, ONE WHICH WOULD EXTEND WELL BEYOND CHEESE, WHICH WOULD BE OF SERIOUS CONSEQUENCE TO US/COMMUNITY RELATIONS ENTIRELY OUT OF PROPORTION TO THE TRADE INVOLVED AND WHICH WOULD REPRESENT A FAILURE IN THE SO FAR SUCCESSFUL EFFORTS OVER THE PAST YEAR OR TWO TO MANAGE BILATERAL ISSUES WHICH THREATENED TO GET OUT OF CONTROL.

6. COMMENT: IT IS CLEAR THAT THE COMMISSION AND THE MEMBER
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STATES CONSIDER THIS A TEST CASE OF US/EC ABILITY TO MANAGE BILATERAL TRADE ISSUES AND TO AVOID A SPILL-OVER INTO THE POLITICAL SPHERE. FAILURE TO SOLVE THIS PROBLEM WILL HAVE AN IMPACT BEYOND THE FIELD OF CHEESE AND DAIRY PRODUCTS, NOT ONLY IN TRADE AND AGRICULTURE, BUT ALSO IN OUR GENERAL RELATIONS. THE EC WOULD CONSIDER IT A DISCOURAGING SIGN OF OUR ABILITY TO CONTINUE A COURSE, WHICH OVER THE LAST TWO YEARS HAS RESULTED IN A CONSIDERABLY IMPROVED RELATIONSHIP BETWEEN THE UNITED STATES

AND THE NATIONS OF THE EUROPEAN COMMUNITY.GREENWALD

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